HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Thunder Bay CMA

CANADA MORTGAGE AND HOUSING CORPORATION

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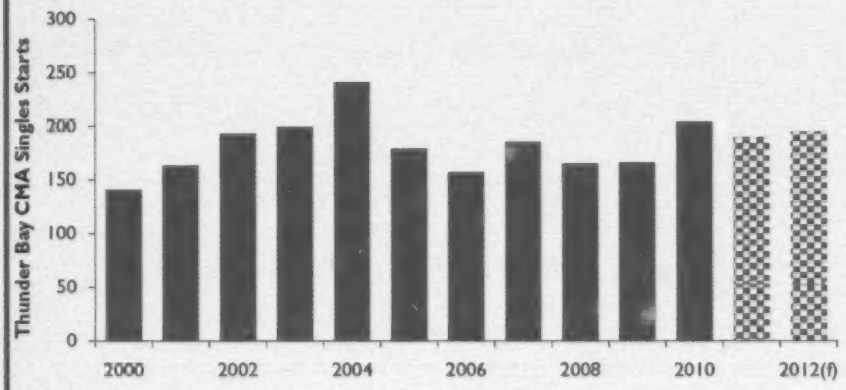
Market at a Glance

- After an active 2010, existing home sales are slowing and will fall five per cent this year and will recover only modestly next year. Listings shortages will continue to put upward pressure on prices.
- Home starts will rise 22 per cent this year on the strength of improved semi-detached, row and apartment starts. Seller's market conditions will continue to contribute to healthy single-detached home starts.
- The rate of population growth will be supported by stronger net in-migration but tempered by the effects of an aging population.

Figure 1

Thunder Bay Single Starts Stabilize in 2011



Source: CMHC forecasts

[1] The forecasts included in this document are based on information available as of April 28, 2011.

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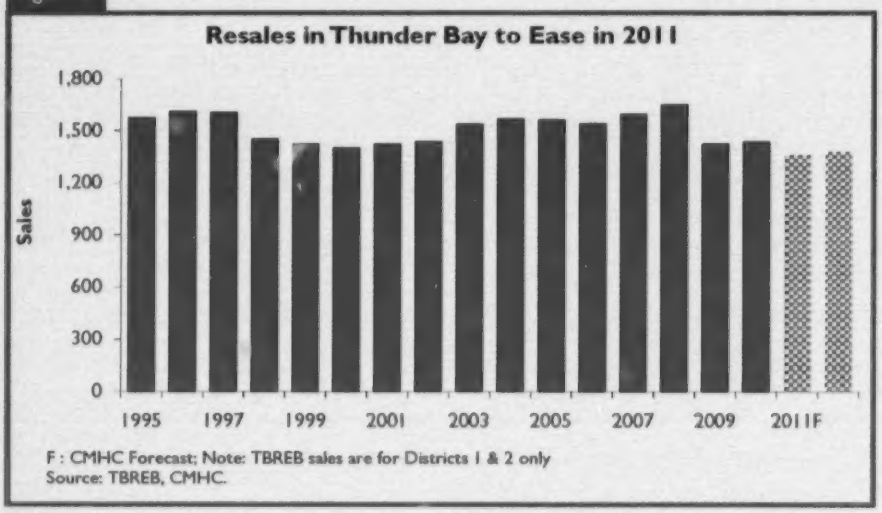
Figure 2



F : CMHC Forecast; Note: TBREB sales are for Districts 1 & 2 only
Source: TBREB, CMHC.

Resale Market

Resale Market Favours Sellers

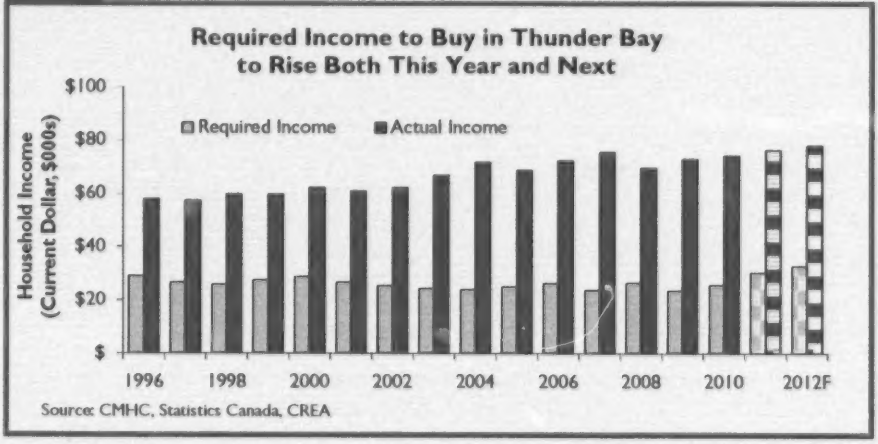
Weak employment growth and an ongoing lack of resale supply will dampen resale market activity in subsequent quarters during 2011. Given the lack of supply available in the immediate term, buyer appetites will be constrained. It is not expected that alternatives such as buying a new home will solve the problem as they are also hampered by supply constraints. A lack of speculative building will continue limiting the number of completed and unoccupied dwellings sitting on the market.

Stronger job market combined with improving net migration will support housing demand by 2012. In this environment, sales will conclude the year off 5.2 per cent while growing modestly in 2012. Despite slightly higher interest rates over the forecast horizon, high rates of affordability in Thunder Bay will be a positive factor. With the increased number of knowledge-based economy jobs, Thunder Bay should witness stronger average weekly earnings even in a climate where there is no net job growth. Compared to all other centres over 100,000 in the province, household incomes relative to home prices depict the affordability of the Thunder Bay resale market.

Despite the low number of new listings, average time on market did rise slightly to 42 days, up from 36 days one year ago. Nevertheless, this effect is expected to reverse as the forecast for supply is pointing downwards in 2011 but should increase somewhat in 2012 as increases home prices prompt more homeowners to list their dwellings.

The primary reason for lack of resale supply in the Thunder Bay housing market is the aging population story. Fewer households are willing to move unless forced to as more consider aging in place which results in less choice in the marketplace. Recovering demand combined with tight supply conditions suggests Thunder Bay prices will outpace price growth for the average Ontario home by 2012. Average prices will continue to rise growing by 2.5 per cent in 2011 and a further 3.1 per cent in 2012.

Figure 3



Source: CMHC, Statistics Canada, CREA

New Home Market

New Home Market Moves Away From Singles

Surpassing 200 single-detached housing starts has only happened twice since 1994 in Thunder Bay, once in 2004 and again last year. With new single construction rising over 200 units in 2010, year over year growth remains healthy in Thunder Bay. CMHC expects starts to ease to 190 units before edging up in 2012.

Although Thunder Bay is to remain one of the most affordable cities in Canada, the expectation of increasing prices and higher mortgage rates will hamper construction activity for single detached construction. The average price of a newly completed and occupied unit has moved up solidly over the past ten years but remains affordable compared to centres of similar size in the country. Furthermore, the New Home Price Index for Sudbury-Thunder Bay will rise 0.5 per cent in 2011 and even stronger in 2012. Higher construction costs and stronger resale prices support higher new home prices.

After a quiet year in 2010, multi-family home construction, which includes semi-detached, townhomes and condominiums, will pick up in 2011 and 2012 as there are a number of projects currently planned and underway. Sixty-eight row and apartment starts will commence in 2011 and another 70 in 2012 in Thunder Bay. The majority of these units will be condominium apartments. The City will undergo a review of their Official Plan in the next year and will examine lot supply to determine if changes have to be made to bring more land on stream faster for builders and consumers. Although there is a particularly low level of available unsold lots in registered plans of subdivision with full urban servicing, developers do not bring them on stream rapidly since they begin paying taxes on them within registered plans of subdivisions. This can result in a lengthy time frame to move through the subdivision approval process.

Economy

Employment Growth to Flatten Prior to Forging Ahead

Thunder Bay employment grew a modest 0.3 per cent in 2010 but it is expected to weaken in 2011 only to rise modestly in 2012. Service sector jobs have recently been a key to relative employment stability and should be also very important to medium term improvements in the economy on the whole.

While Thunder Bay employment trended up slightly in 2010, the labour force fell resulting in a reduced unemployment rate. Nevertheless, the recent trend in weakening employment is beginning to affect income growth as measured by average weekly earnings. CMHC expects the distribution effect of increasing number of well paid jobs will be the biggest contributor to the stronger income growth. Medical imaging technology, DNA testing and cancer research are three key growth areas with prospects for a cyclotron also being floated of late.

A law school at Lakehead University, value-added wood technologies, mining exploration and services along with the expansion of the Port of

Figure 4

to March 2011, Forecast 2011 and 2012.
Source: Statistics Canada Labour Force Survey

Thunder Bay are also in the works that will add to the growth in jobs, especially knowledge sector jobs that tend to be higher paying. This will help income growth moving forward as it is expected that they will close the year up 2.7 per cent.

Despite rising lumber prices recently, local demand for dimensional lumber remains weak as US-based customers are still not buying given weak new home market conditions south of the border. However, a Thunder Bay-based employer in this sector will be adding 50 jobs in 2011. Good pulp and newsprint market conditions are positive for local and area mills.

On the mining front, with gold prices approaching $1500 an ounce and other metals and minerals prices also showing strength, mining exploration in the area will continue. This is another growth sector for Thunder Bay that should provide more above average income jobs that should work to positively impact average incomes for the community.

After peaking in 2009, consumer bankruptcies moderated in 2010 and the trend should continue in 2011 thereby boosting consumer spending help households sustain themselves longer especially if mortgage rates climb as is forecast.

Natural Increase Versus Migration

According to intercensal counts, net migration has recently become positive while natural increase (births minus deaths) has continued on a negative course. Whereas it is noteworthy that much of the in-migration to Thunder Bay has come from the region that includes Kenora District, Rainy River District and small communities within Thunder Bay District, the growth in the knowledge based economy has in many cases brought with it immigrants from outside the province and outside the country to fill these jobs. In-migration is forecast to pick up this year and next driven by continued intra-provincial and international migration.

Mortgage Rate Outlook

On April 12th, the Bank of Canada announced that it was leaving the Target for the Overnight Rate unchanged at 1.0 per cent. The last increase in the overnight rate occurred on September 8, 2010 when the Bank of Canada raised it by 25 basis points. The Bank of Canada is expected to resume raising the overnight rate in the fourth quarter of 2011. Mortgage rates, particularly short term mortgage rates and variable mortgage rates, are expected to remain at historically low levels.

According to CMHC's base case scenario, posted mortgage rates will remain relatively flat in 2011 before increasing moderately in 2012. For 2011, the one-year posted mortgage rate is assumed to be in the 3.1 to 3.5 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.1 to 5.6 per cent range. For 2012, the one-year posted mortgage rate is assumed to be in the 3.4 to 4.3 per cent range, while three and five-year posted mortgage rates are forecast to be in the 4.2 to 6.3 per cent range.

Rates could, however, increase at a faster pace if the economy ends up recovering more quickly than presently anticipated. Conversely, rate increases could be more muted if the economic recovery is more modest in nature.

Forecast Summary Thunder Bay CMA Spring 2011							
	2008	2009	2010	2011f	% chg	2012f	% chg
Resale Market							
MLS® Sales	1,649	1,423	1,434	1,360	-5.2	1,380	1.5
MLS® New Listings	2,839	3,193	2,905	2,700	-7.1	2,750	1.9
MLS® Average Price ($)	139,301	145,074	155,060	159,000	2.5	164,000	3.1
New Home Market							
Starts:							
Single-Detached	165	166	204	190	-6.9	195	2.6
Multiples	2	14	18	80	**	80	0.0
Semi-Detached	2	6	10	10	0.0	10	0.0
Row/Townhouse	0	4	4	0	n/a	0	n/a
Apartments	0	4	4	70	n/a	70	0.0
Starts - Total	167	180	222	270	21.6	275	1.9
Average Price ($):							
Single-Detached	244,158	270,513	319,582	332,000	3.9	341,000	2.7
Median Price ($):							
Single-Detached	245,000	274,900	309,900	325,000	4.9	335,000	3.1
New Housing Price Index (% chg) (Thunder Bay-Sudbury)	5.5	0.7	-0.5	0.5	-	1.0	-
Rental Market							
October Vacancy Rate (%)	2.2	2.3	2.2	2.0	-0.2	1.5	-0.5
Two-bedroom Average Rent (October) ($)	719	742	763	771	1.0	790	2.5
Economic Overview							
Mortgage Rate (1 year) (%)	6.70	4.02	3.49	3.23	-	3.76	-
Mortgage Rate (5 year) (%)	7.06	5.63	5.61	5.45	-	5.94	-
Annual Employment Level	62,200	59,600	59,800	59,500	-0.5	60,000	0.8
Employment Growth (%)	-0.5	-4.2	0.3	-0.5	-	0.8	-
Unemployment rate (%)	5.9	8.3	6.6	7.5	-	7.8	-
Net Migration	-8	110	239	200	-16.3	250	25.0

MLS® is a registered trademark of the Canadian Real Estate Association (CREA).

Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

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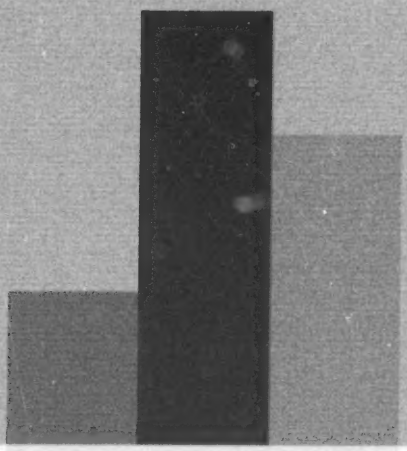

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